

Office of the President

TO MEMBERS TO THE COMMITTEE ON FINANCE:

ACTION ITEM – CONSENT

For the Meeting of May 15, 2013

APPROVAL OF FISCAL YEAR 2013-14 CapEquip FINANCING AUTHORIZATIONS

EXECUTIVE SUMMARY

This item requests that the Regents approve fiscal year 2013-14 financing authorizations for a new capital equipment financing program (CapEquip) for an amount not to exceed \$151,025,000. Capital expenditures and debt financing will be implemented pursuant to existing Regental and University policies.

RECOMMENDATION

The President recommends that the Committee on Finance recommend to the Regents that:

- A. The fiscal year 2013-14 CapEquip authorizations delineated in Attachment 1 be approved as one-year authorizations expiring June 30, 2014.
- B. The President be authorized to approve and obtain external financing for the CapEquip program in an amount not to exceed \$151,025,000.
- C. The general credit of the Regents shall not be pledged.
- D. The President be authorized to execute all documents necessary in connection with the above.

BACKGROUND

At the May 2010 meeting of the Committee on Finance, Executive Vice President – Business Operations Brostrom and Executive Vice President and Chief Financial Officer Taylor presented to the Regents plans for a multi-year efficiency initiative (now known as Working Smarter) which included the establishment of a strategic investment program that would enable campuses and medical centers (Participants) to obtain capital equipment financing from the Office of the President in lieu of third-party capital leasing.

In order to participate in the CapEquip program, Participants must obtain in advance of each

fiscal year a Regental financing authorization that will serve as the maximum amount of financing available to each Participant through the program during that fiscal year. Participants are not obligated to utilize their full authorization. Any unused authorization will lapse at the end of each fiscal year. Capital Market Finance will reimburse Participants for capital equipment purchases, up to the maximum represented by each Participant's authorization.

It is possible that a Participant may use its FY2013-14 CapEquip authorization in lieu of third-party leasing to finance capital equipment previously approved as part of a capital project budget. It is likewise possible that a Participant may use its FY2013-14 CapEquip authorization to finance capital equipment that will receive budget approval in the future. Approval of the FY2013-14 CapEquip authorizations does not irrevocably commit the University to fund capital equipment under the CapEquip program. All funding under CapEquip is subject to standard University requirements pertaining to capital expenditures and debt financing. The annual approval of CapEquip authorizations will not supersede existing Regental and University policies regarding capital expenditures and debt financing.

Each Participant has demonstrated financial feasibility as summarized in Attachment 2 (Table B: Financial Feasibility Statistics) and the Office of the President will maintain its budget to meet the CapEquip-related debt service requirements.

UCPath

The CapEquip Program is also funding the UCPath initiative. UCPath is a multi-year initiative to implement a single, University-wide payroll and human resources/academic personnel system with modern capabilities to meet UC's complex operational and workforce needs. The single UCPath system will replace 11 different instances of a frail Payroll Personnel System (PPS) that is over 30 years old and increasingly difficult to update, maintain, and use. The UCPath project is one of the most complex operational initiatives ever undertaken at the University. In addition to replacing the aging PPS instances, the initiative also includes streamlining and standardizing business processes and the creation of a systemwide transactional shared services organization (the UCPath Center) to provide consistent and efficient payroll and selected human resources/academic personnel support services to all UC employees.

Current estimates of total Project spending appropriate for capitalization are \$221 million.

- \$107 million related to UC staff compensation and other staff-related costs.
 - Includes costs of PMO \$41.5 million, UC Campus Reimbursement \$31.9 million, and UCOP ITS Shared Services \$33.8 million.
- \$104 million related to software licensing and maintenance and other services, as well as external consulting support related to the software design and implementation.
 - Oracle \$89.9 million (consulting, software licensing/maintenance and services) and Huron \$14.5 million (consulting).
- \$10 million related to costs associated with the establishment of the overall operating environment for the UCPath Center, primarily related to Center hardware and software requirements.

Through the end of March 2013 the Project has drawn \$67.8 million from the CapEquip Program in total.

- \$19.6 million in FY 2011-12, and \$48.2 million over three quarters of FY 2012-13.
- Full year CapEquip draws for FY 2012-13 are projected to be approximately \$70 million.
- Full year CapEquip draws for FY 2013-2014 are projected to be approximately \$80 million.
- Full year CapEquip draws for the final project year FY 2014-15 are projected to be \$51 million.

The \$10 million in Tenant Improvements approved for the UCPath Center Riverside site as well as the purchase of the facility are not included in the figures above.

Current Program

CapEquip authorizations for FY 2012-13 totaled \$156,007,000, of which \$51,944,149 has been utilized to date (FY 2012-13 third quarter) as illustrated in the table below; the final reimbursement for the authorized CapEquip program for FY2012-13 will occur in June 2013. Based on the eligible requests submitted by the Participants, the University is recommending \$151,025,000 in CapEquip Authorizations for FY 2013-14.

Campus	CapEquip FY 2012-13 Utilization through Q3
Davis	\$632,000
Irvine	\$0
Los Angeles	\$2,329,000
Merced	\$0
San Diego	\$122,000
Santa Barbara	\$402,000
Santa Cruz	\$220,485
Office of the President	\$48,238,664 ¹
Total	\$51,944,149

1. Includes capitalized interest

(Attachments)

Table A: Approval of FY2013-14 CapEquip Authorization

UC Location	FY 2012-13	Description of Expected Equipment Purchases
Berkeley	\$ 5,000,000	Research equipment, telecommunications equipment, other equipment, software, and refinancing of certain existing capital equipment leases
Davis	10,000,000	Science and laboratory equipment, animal caging, facilities maintenance equipment, computer software, UC Path
Irvine	4,000,000	Research equipment, medical equipment, IT equipment
UCLA	5,000,000	Computer hardware, copying equipment, office equipment, furniture & fixtures, musical instruments, medical equipment, diagnostic equipment, research equipment, laboratory instrumentation and equipment, theatrical equipment, shop equipment, communications and networking equipment, vehicles, computer software, fabricated items, and refinancing of existing capital equipment leases.
Merced	1,845,000	Student Housing, Phase 4 (The Summits), Project 906270 equipment; vehicles for fleet services
San Diego	5,000,000	Research, medical and diagnostic equipment; budget software and refiancing of certain existing capital equipment leases.
San Francisco	15,000,000	Scientific equipment, information technology/network and office equipment
San Francisco - Medical Center	25,000,000	Medical/diagnostic/scientific equipment, information technology/network, and office equipment
Santa Cruz	180,000	Vehicles
Office of the President	80,000,000	PPS replacement system (i.e., a single payroll system and a single human resources system that will be deployed across all ten campuses and five medical centers)
Total Authorization:	\$ 151,025,000	

Table B: Financial Feasibility Statistics

UC Location	Maximum Debt Service to Operations (Fiscal Year)	Minimum Debt Service Coverage (Fiscal Year)
Berkeley	5.60% (2020)	1.27x (2017) ¹
Davis	3.30% (2016)	4.23x (2016)
Irvine	4.70% (2013)	3.92x (2013)
Los Angeles	3.70% (2014)	2.54x (2014)
Merced ²	n/a	n/a
San Diego	5.20% (2016)	3.41x (2016)
San Francisco	4.10% (2021)	2.43x (2021)
San Francisco Medical Center ³	n/a	3.28x (2015)
Santa Cruz	5.80% (2019)	5.13x (2013)
Office of the President ⁴	n/a	n/a

* Approval thresholds are 6.0% debt service to operations and 1.75x debt service coverage or 1.0x expendable resources-to-debt (3.00x for medical centers);

1. Expendable resources-to-debt
2. The Merced campus is exempt in this case from meeting the required financial feasibility metrics
3. Medical centers are exempt from debt service-to-operation s requirement
4. The Office of the President will maintain its budget to meet CapEquip related debt service payments